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SUBJECT: PRC/MONGOLIA: ECONOMIC AND COMMERCIAL TIES STILL GROWING

¶1. (SBU) In a December 3 meeting with Econoffs, Mongolian Commercial and Economic Counselor Nyamtseren Enkhtaivan noted that Chinese-Mongolian trade was increasing "quite well," and that generally the bilateral relationship had progressed quickly over the past 60 years. For instance, bilateral trade had increased 30 to 40 percent each year for the past 11 years, and was nearly USD 3 billion in 2008, up from USD 1.4 billion in 2006. Enkhtaivan predicted the financial crisis would decrease trade to about USD 2 billion this year, but went on to note that China remained Mongolia's largest investor, with 3,000 enterprises and USD 1.3 billion invested in mining, infrastructure, light industry, and services.

¶2. (SBU) Enkhtaivan noted that China has provided USD 250 million in development aid over the past three years and that the two countries are still discussing a possible USD 3 billion commercial loan. China and Mongolia signed a framework agreement on the loan in late 2008, and more recently the Mongolians presented a list of 18 projects which the loan would finance. The Chinese government would lend the money to the Mongolian government, which would then direct financing to businesses. Although he was unwilling to specify the exact projects or their timelines, he said they would primarily be in the mining, infrastructure, and energy sectors.

¶3. (SBU) When asked about the massive Tavan Tolgoi coal mine in the Gobi Desert, which U.S. firm Peabody and others are interested in developing, Enkhtaivan noted that he had spoken with China's Shenhua Group, which he said had been designated by Beijing as the lead Chinese company for the project. (Note: Peabody-Beijing has met regularly with Shenhua to explore a possible joint venture, although Shenhua reportedly prefers operating the project independently or, at a minimum, as the lead investor. Enkhtaivan added that he had met with Peabody as well. End Note.) Once on the subject of Shenhua, he did say that one of the 18 commercial loan projects would include Shenhua, though he did not specify the role Shenhua would play or if it was tied directly to a Tavan Tolgoi conditionality.

¶4. (SBU) Although Enkhtaivan told Econoffs that Chinese companies were not interested in mining uranium in Mongolia, he did note that China National Uranium Corporation had recently bought almost 80 percent of Western Prospector's shares. (Note: Western Prospector was a Canadian-registered minerals exploration firm with active U.S. interests--a U.S. equity firm continues to own approximately 20 percent--currently well-established in Mongolia. End Note.) He also said that Mongolia is still in discussions with China State Grid regarding development of a 4 GW power complex at

Shivee Owoo, also in the Gobi. Nearly all power produced there would be for export into the Chinese market. He also clarified that the railway China had proposed to build from its border with Mongolia would run to the Nariin Sukhait coal mine, about 60 kilometers from the border. He noted construction would begin in 2010, and that the two countries continued to hold budget discussions on the project.

¶5. This cable was written in conjunction with Embassy Ulaanbaatar, whose Econoff was TDY in Beijing and participated in this meeting.

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